Kaiser Resources Ltd. Annual Report 1977

Together We Build

Engraved on the company's gold service award emblem are the words, "Together We Build". It is more than a motto, it is a way of life at Kaiser Resources.

During the ten years since the company was founded, the men and women of Kaiser Resources together have performed a truly remarkable job in building a successful mining and engineering organization. After a difficult beginning, this group of dedicated, talented and highly motivated people built an efficient mining operation and established outstanding productivity records.

As the company enters its second decade of business in Canada, it is men and women with this kind of determination who will serve as the foundation for the future growth and success of Kaiser Resources.

In the final analysis, the company must compete in the free market system. Mineral resources, although valuable, are not unique to either the company or the country. What is unique are the people, their productivity, their integrity, their creativity and their desire to get the job done.

Kaiser Resources has the talent to turn the competitive challenges of the eighties into opportunities for growth.

Cover: Stanley Wasienwicz, Unit Foreman, Underground

Kaiser Resources Ltd.

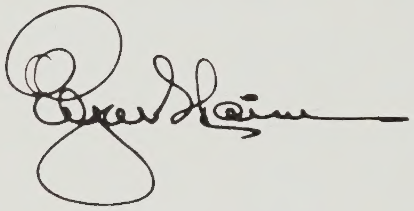
Kaiser Resources Ltd. operates Canada's largest metallurgical coal mine, producing nearly one-half of the country's exports of coal used in steelmaking. Incorporated in British Columbia in 1967, the company operates surface and underground mines and coal processing facilities at Sparwood, in the southeastern part of the province. Westshore Terminals Ltd., a subsidiary, operates a bulk-handling port facility at Roberts Bank, south of Vancouver. Kaiser Resources has also diversified into exploration for oil and gas in Canada.

Highlights

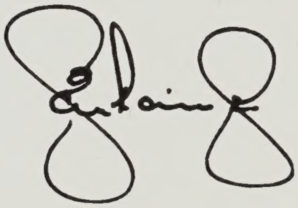
Thousands except per share data	**1977**	1976
Shipments — tons:		
Metallurgical coal	**4,881**	4,530
Thermal coal	**485**	314
Coke and breeze	**112**	110
Sales	**$299,005**	$262,890
Net earnings	**57,282**	52,387
Net earnings per share	**2.14**	1.98
Dividends per share	**.87**	.81½
Cash flow from operations	**$ 85,391**	$ 77,237
Working capital	**125,817**	102,380
Capital expenditures	**28,542**	13,330
Total assets	**312,755**	295,646
Total long-term debt	**—**	11,708
Employment costs	**46,698**	38,352
Number of shareholders	**6,398**	6,455
Number of employees	**1,930**	2,030

Financial information presented above should be read in conjunction with the consolidated financial statements and other financial data included in this report.

Tonnage figures in this report are expressed in long tons (2,240 pounds) except where indicated as short tons (2,000 pounds) or metric tons (2,204.6 pounds).



Edgar F. Kaiser
Chairman



Edgar F. Kaiser, Jr.
President & Chief
Executive Officer

Kaiser Resources marked its tenth year in business with successful performances in all key areas.

Net income and earnings per share in 1977 were the second highest in the company's history. Sales reached a record high. New coal markets were penetrated, despite the lowest level of international metallurgical coal consumption in many years. All of the company's remaining long-term debt was repaid.

Consolidated net earnings for 1977 were $57.3 million, or $2.14 per share, compared with $52.4 million, or $1.98 per share in 1976. Sales increased 14 percent to $299 million.

The strong earnings performance was primarily attributable to a successful market diversification program which resulted in an increase in metallurgical coal shipments to 4.9 million tons during 1977 from 4.5 million tons in 1976.

Market Diversification

Increased market diversification has been accomplished during the past three years. Due to Japan's reduced production of crude steel, we have intensified our efforts to diversify our markets geographically. More than 14 percent of 1977 metallurgical coal exports were shipped to customers outside Japan.

During the year, three new long-term contracts were signed with steel mills in Pakistan and Brazil. The tonnage under our Korean sales contract was increased substantially. Early in 1978, we entered another important new market – Europe –

with a three-year contract to ship more than half a million metric tons of metallurgical coal to Romania. We expect to continue to diversify our customer base in 1978.

The company also increased its marketing of thermal coal in 1977. Trial cargoes were shipped to potential customers in Europe and Asia, and thermal coal shipments are expected to increase further in 1978.

Studies are in progress to determine the potential of thermal coal mining and processing activities at our present operations. We are also continuing to explore thermal coal opportunities in Canada and in other countries.

New Projects

Kaiser Resources is participating in oil and gas exploration projects in northern and eastern Canada in an effort to broaden its investment in Canada's energy resources and to expand its base for future growth. Economic incentives established to encourage development of Canadian oil and gas reserves significantly reduce the company's risk and provide opportunities for potential high rates of return from successful exploration and development efforts.

We have joined Petro-Canada and Mobil Oil of Canada in a 1.1 million-acre oil and gas exploration project in the Sable Island area off the east coast of Nova Scotia. We expect to earn up to a 10 percent working interest in the project through the expenditure of approximately $16.5 million in the drilling of exploratory wells. Our participation is subject to review under the Foreign Investment Review Act.

In an earlier venture in 1977, the company invested $5 million for a one percent net profits interest in four Dome Petroleum Limited exploration blocks in the Beaufort Sea. Significant gas flows were recorded at three deep exploration wells drilled in 1977. A significant oil flow also was recorded at one of these wells. Further testing and drilling will be conducted in 1978 to assess more fully the oil and gas potential of the properties in which we have an interest.

Outlook

These are uncertain times for the economies of many of the countries to which we ship our coal. Increased demand for metallurgical coal in 1978 is dependent upon increased worldwide steel production. Generally, steel industries in industrialized countries are expected to show only a modest recovery during the remainder of the 1970s. In contrast, steel industries in developing countries are expanding and offer new opportunities for long-term sales of metallurgical coal. Our market diversification program is focused on increasing our business with developing countries such as Korea and Pakistan which have new and expanding steelmaking facilities.

In Japan, our single most important market, a rapid recovery of the steel industry is not expected. With its current high inventories of coke and metallurgical coal, our 1978 shipments to Japanese steel mills continue to be below contract levels. However, we anticipate that metallurgical coal markets will strengthen gradually over the next several years.

While 1977 was a successful year, it is becoming more difficult to maintain our high return on investment in the face of a depressed market. In addition to developing new customers, we are concentrating our efforts on further increasing the high productivity levels which have historically benefited our competitive position. Cost control programs are being continued and our people, through ingenuity and hard work, are increasing equipment utilization and are developing new methods to mine coal at lower costs. We also are accelerating our efforts to examine new opportunities for future growth.

Basic Strengths

Our success in 1977 is directly attributable to the exceptional efforts of our people who found ways to do their jobs at lower costs and to increase shipments despite a generally depressed market.

Based on the strengths of our people, working with efficient equipment and modern facilities on extensive coal properties, and with the continued support of our customers and shareholders, we are able to look forward with confidence to the future success and growth of Kaiser Resources.

March 8, 1978

An Overview

Kaiser Resources concentrated its efforts during 1977 on consolidating operations and increasing operating efficiency. Consistent with worldwide soft market conditions, production of raw metallurgical coal was reduced to 6.1 million tons during the year, from 6.6 million tons in 1976.

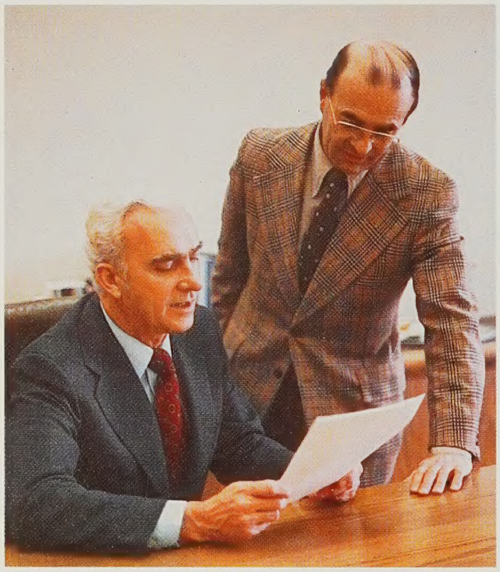
Construction of a new underground mine section continued on schedule and is due for completion in 1978. Surface and underground mining equipment was rebuilt, new equipment was tested, and additional maintenance was performed. The company also increased production capacity of its mining and processing facilities, strengthened its cost control system, and conducted extensive exploration and mine planning.

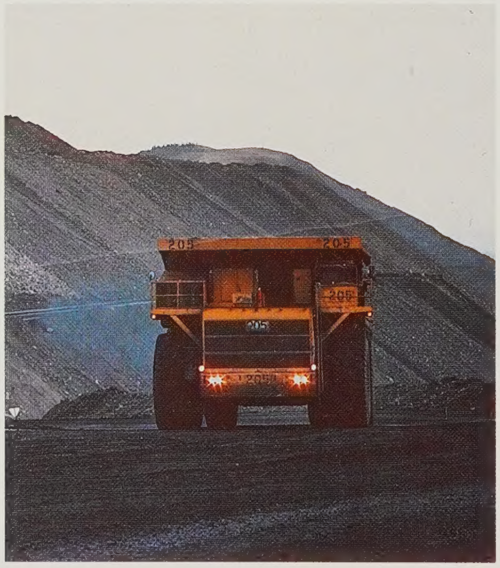
The company is currently negotiating with local representatives of the United Mineworkers of America at Sparwood for a new collective agreement. The UMWA contract expired December 31, 1976.

Collective agreements also are being negotiated with the Office and Technical Employees' Union and the East Kootenay Firebosses Union, and with three locals of the International Longshoremen's and Warehousemen's Union, representing employees at the port of Roberts Bank.

Top left: Robert MacPhail *(left)*, executive vice-president, operations; and Walter Riva, vice-president, mining operations.

Bottom left and right: The highly flexible truck-and-shovel method is used in surface mining operations. Approximately 90 million tons of coal and overburden are removed annually.





Surface Mining and Maintenance

Surface mining operations produced 5.3 million tons of raw metallurgical coal in 1977, compared with 5.6 million tons in 1976. Approximately 85 percent of the total raw coal mined is produced by surface operations at Harmer Ridge.

Substantial cost savings were achieved as a result of new drilling and blasting procedures which have produced a better and more consistent fragmentation of the rock overburden. This program will produce estimated savings in 1978 of more than a million dollars.

Numerous modifications to surface mining equipment by maintenance employees, part of a new program which incorporates the latest technology for mining under mountainous conditions, have resulted in a substantial increase in equipment availability. Two 200-ton trucks were completely rebuilt in 1977. Three additional 200-ton trucks are scheduled to be rebuilt in 1978. Rebuilding this huge equipment avoids substantial capital expenditures which otherwise would have been necessary to replace the trucks.

A maintenance service truck was introduced to surface operations during the year. All units such as shovels, trucks and drills are fueled and serviced daily in the field and minor repairs are performed on site.

Left: Huge 25-cubic yard shovels are operated with solid state controls to efficiently remove overburden.

Top right: Lawrence Riffel *(right)*, general superintendent of surface operations; Lou Castagner *(centre)*, pit superintendent; and Dennis Bremault, superintendent of surface maintenance.

Bottom right: Ward Popenoe *(left)*, vice-president, administration; and Ken Berg, purchasing manager.

Coal Processing

Raw coal is processed to sales contract specifications at the Elkview preparation plant. In 1977, 4.7 million tons of clean metallurgical coal were processed, compared with 4.8 million tons in 1976.

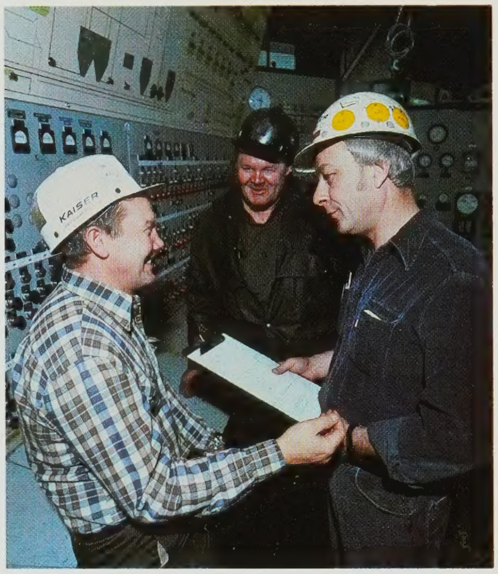
Significant improvements have been made to the machinery and equipment to increase capacity of the plant. A $4.2 million plant modification program was completed in 1977. The program, part of a continuing effort to increase productivity and upgrade equipment at all locations, has increased the plant's annual production capacity by approximately 10 percent, to more than six million tons. Studies were also started to improve the quality of air emissions through modifications to the plant's dryer scrubber system.

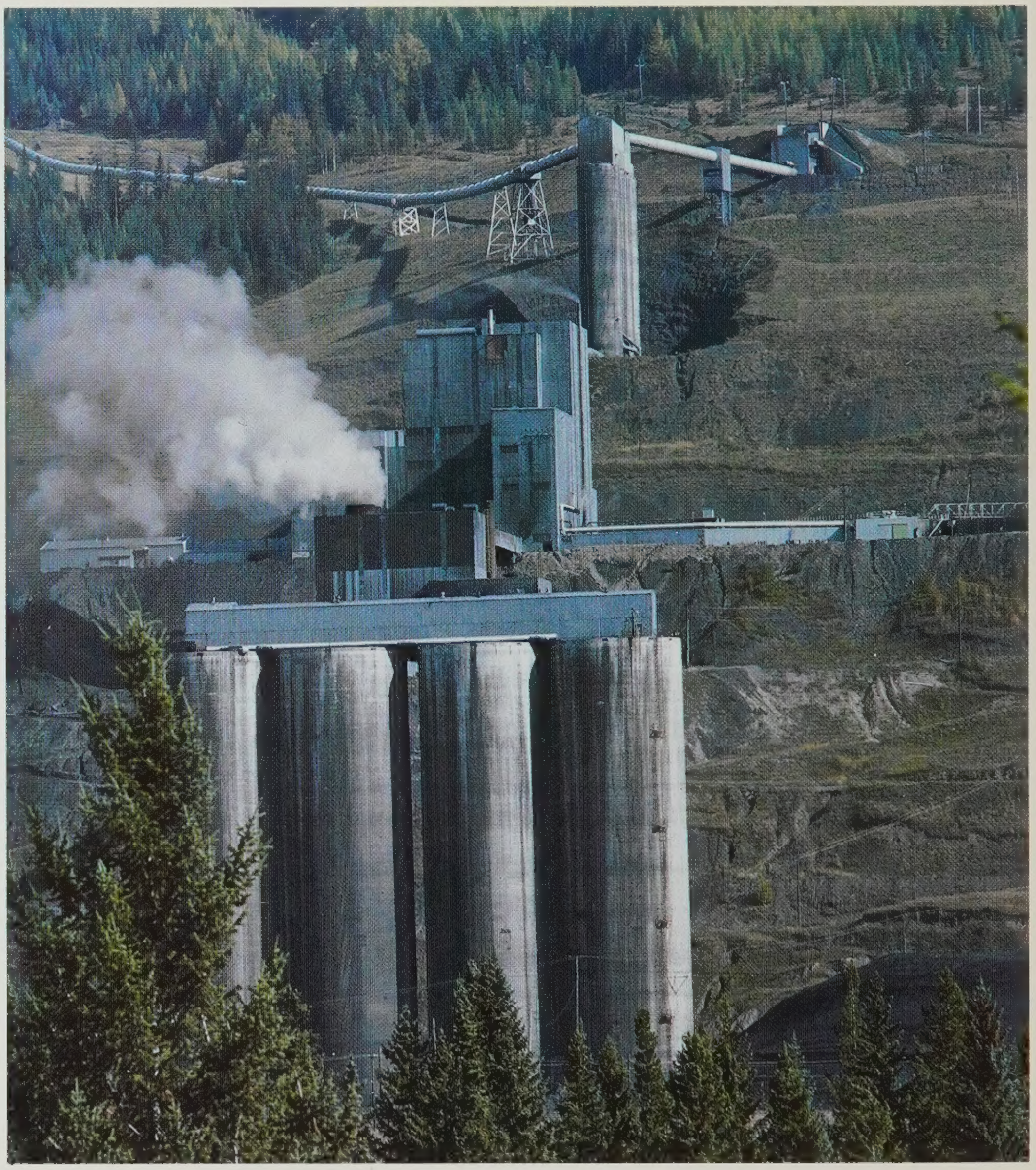
In addition to the modification program, a new loadout system to increase the tonnage of coal loaded on each rail car to the maximum limit was devised by plant personnel. This trial design is expected to reduce costs for rail freight by minimizing dead freight charges. A permanent system is being designed for installation in 1978.

Top left: Junie Lindsay *(left)*, general superintendent of coal processing; Gil Brust *(right)*, superintendent of the Elkview plant; and George Lancaster, superintendent of the Michel by-products plant.

Bottom left: Gino Mangone works on filters at Elkview plant.

Right: The Elkview preparation plant now has the capacity to produce more than six million tons of clean coal per year as a result of a modification program completed in 1977.





Hydraulic Mining

Production from North America's only underground hydraulic coal mine was 608,000 tons of raw coal in 1977, compared with 756,000 tons in 1976. Another 167,000 tons were mined by a conventional underground method. Monitor production in the hydraulic mine was halted in the third and fourth quarters in order to balance inventories. Employees were shifted to underground development work.

By mid-1978, construction work is expected to be completed on a new section of the hydraulic mine which will extend production to 1992. The $49 million project is being built to mine coal hydraulically from a seam which lies below the existing surface dewatering station. A partial dewatering system designed with the most advanced technology was installed underground. Coarse coal will be separated from the water and carried to the surface by conveyor belt while fine coal will be pumped in slurry form to be separated at the existing surface dewatering station.

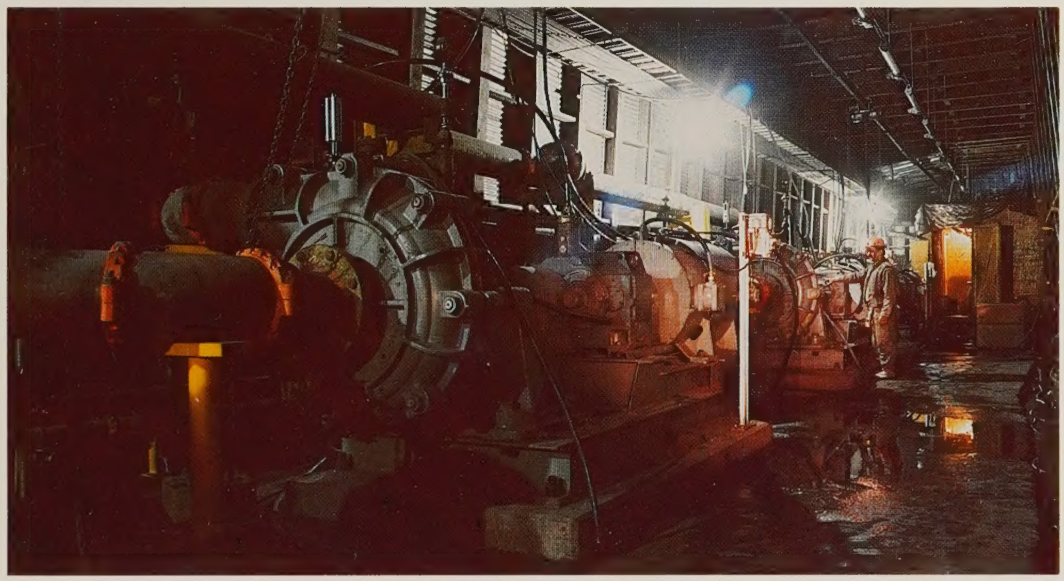
Continuous mining machines are being used to mine coal in the development levels of the new section. Operation of the hydraulic monitor is expected to begin in 1979, with production of the new section estimated at 1.2 million tons of raw coal per year.

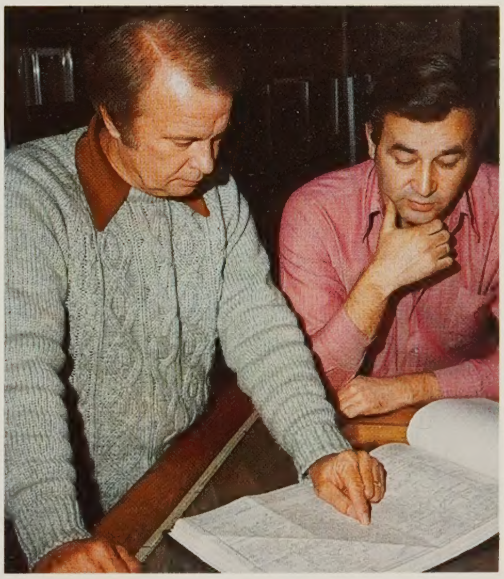
Top right: Dick Lewis *(centre)*, general superintendent of underground mines; Jas Anderson *(right)*, superintendent; and Arthur Grimley, manager of research and development.

Top left: High-pressure water jet *(upper right)*, cuts coal from steeply-pitched seams in the hydraulic mine.

Bottom right: Robert Gronotte *(left)*, vice-president, engineering; and Nigel Stonestreet, project manager of new hydraulic mine section.

Bottom left: The highly complex dewatering station now under construction is built into a network of rock and coal tunnels some 450 feet below the valley floor.





Mine Planning and Development

In order to prepare for the future and provide continuity to mining operations, a study to evaluate contiguous coal deposits which could extend the life of surface and underground mining was concluded in 1977. Preliminary results of the study indicate that a portion of these deposits could be developed to sustain current levels of production through the year 2000. It is planned to process this coal through the existing Elkview preparation plant.

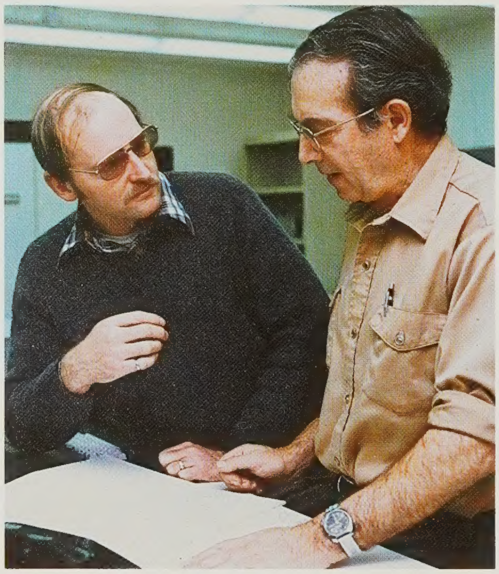
Various methods of handling and transporting the high volumes of materials from the new mine area are currently being evaluated. A new generation of loading and hauling equipment is being studied to improve efficiency. During 1978, the company will begin testing a 350-ton truck — the world's largest — to determine its cost and operating characteristics.

In anticipation of high demand for thermal coal, used to generate electric power, the mine planning group is re-evaluating the extent of the company's thermal coal reserves available to meet future demand.

Top left: Gary Livingstone *(left)*, general superintendent, mine engineering and planning; and Lou Dwarkin, manager of mine engineering projects.

Right: Robert Heers *(left)*, vice-president, new project development; and David Parkes, manager of new mining development.

Bottom left: Brian Murphy, manager of geological engineering.



Safety and Service

Reflecting the employees' high degree of concern for safety and their emphasis on safe work practices, a number of Kaiser Resources units were recognized for their safe performances. Two operating crews received the highest safety awards in British Columbia. The Elkview preparation plant and the plant protection department each won the Award of Excellence for their long-time safety records. Kaiser Resources also won the first place trophy in the province's surface mine rescue competition, and the company's underground mine rescue team finished second in their category.

Most cherished of all safety records is the envious achievement of crew "A" at Westshore Terminals. Since operations began at the company's port facilities in June of 1970, the crew has not had a single lost-time injury.

A total of 500 employees at the mine operations and at Westshore Terminals received Service Awards in 1977 in recognition of their service of five years or more to the company. In 1978, more than 260 employees will be eligible for service awards.

Right: John Cook *(right)*, administrative manager, Sparwood, receives Service Award from Edgar F. Kaiser, Jr., president and chief executive officer.

Top left: Employees and their families enjoy a Service Awards dinner at Sparwood Recreation Centre. More than 1,200 attended.

Bottom centre: This underground crew worked 18,000 consecutive hours without a lost-time injury.

Bottom left: A Sparwood team won the British Columbia surface mine rescue competition in 1977.

Environmental Services

Substantial progress was made during the year in the two principal areas of environmental control, which are land reclamation and preservation of air and water quality.

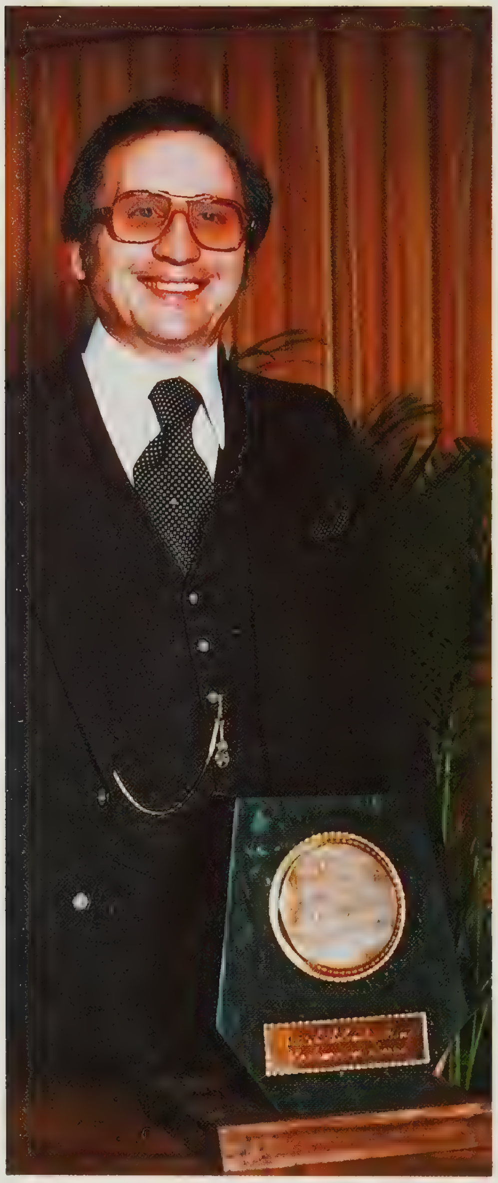
As a result of reduced coal production, a number of surface mining employees were diverted to reclamation work during the year. Approximately 370 mined acres were reclaimed in 1977. This increased the total area in various stages of reclamation to 1,790 acres.

Late in 1977, the company advised the British Columbia Ministry of the Environment of preliminary plans for an environmental improvement program at its Michel Valley coke ovens and coal screening facilities, which were built more than 40 years ago and purchased by the company in the late 1960s. Application to the Ministry has been made for an emissions permit and an effluent permit, based on these preliminary plans. Engineering is underway to develop a definitive cost estimate and a construction plan.

Constant vigilance of air and water quality at mine and port facilities has been the key to successful pollution control. Studies to find better and more efficient methods of controlling air and water quality at all facilities are continuing.

Left: Lou Cherene, manager of environmental services, with the British Columbia Mine Reclamation Award — the first ever awarded by the Ministry of Mines and Petroleum Resources.

Top and bottom right: Elk and other wildlife forage on reclaimed surface mines in summer and winter.



Administration and Community Services

Staff services to support the Company's expanding activities were increased in 1977. Continued assistance was provided for the development of Sparwood, the town where the majority of the employees working at the mine live.

During 1977, construction began on Sparwood's new $2 million hospital, a 27-bed facility which will be opened by mid-1978. New tennis courts and an all-purpose athletic field were completed in 1977 and additional recreational facilities are planned for 1978.

Sparwood, a modern community of 4,000 in the Elk Valley of southeastern British Columbia, has experienced rapid growth during the past several years. The Sparwood District Council completed plans in 1977 to develop 800 acres across the Elk River for new building sites. Construction of the first phase of development, which will accommodate about 1,000 new residents, is expected to begin in 1978.

Top right: Henry Volkmann *(right)*, manager of industrial relations, and an alderman on the Sparwood District Council; and Mayor Reginald Taylor.

Top centre: Sue Haraguchi, vice-president, assistant to the president; and Larry Stanwood, director of community relations, Sparwood.

Top left: Christopher Hebb *(left)*, vice-president and general counsel; and Thomas Beckett, counsel.

Bottom right: A new 27-bed hospital will open in 1978 at Sparwood; with patient Jennifer Halko is Fred M. Lundgren, M.D.

Bottom left: The expanding community of Sparwood is situated along the Elk River.

Terminals and Transportation

High volumes of coal continued to move efficiently through port facilities of Westshore Terminals Ltd., a wholly-owned subsidiary. Located at the port of Roberts Bank, south of Vancouver, Westshore operates one of Canada's largest bulk handling terminals.

During 1977, eight million tons of coal and coke were loaded by Westshore on 130 ships, compared with 6.9 million tons and 132 ships in 1976. The 1977 total included 2.7 million tons of coal handled for other companies.

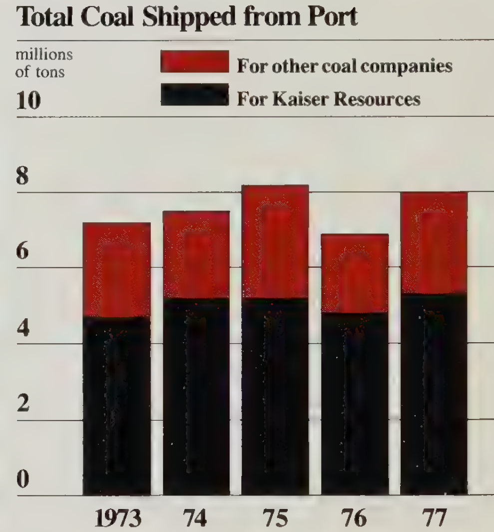
An Environmental Impact Study conducted for the National Harbours Board in 1977 cited Roberts Bank as the most suitable location in British Columbia for additional bulk loading facilities. If the federal government approves expansion of the port, Westshore will accelerate its planning for installing additional coal handling facilities on a proposed 50-acre pad.

The average roundtrip for the unit trains between Sparwood and Roberts Bank improved to 82½ hours in 1977 from the 85 hours, 7 minutes in 1976. CP Rail is continuing work on a track improvement program, which together with the use of mid-train power, will substantially increase main line capacity on the 700-mile route from the mine to the port.

Top left: Hans Krutzen *(left)*, vice-president, terminal operations and traffic; Gordon Edgar *(right)*, vice-president and general manager, Westshore Terminals; and Terry Garvey, traffic manager.

Bottom left and top right: Since operations began in 1970, Westshore Terminals has loaded 940 ships with a total of 48 million tons of coal. Crews working around the clock have the facilities to load ships calling at the port of Roberts Bank at rates up to 6,300 tons an hour.

Total Coal Shipped from Port



Marketing

Under an aggressive marketing program, 5.5 million tons of coal, coke and related products were shipped in 1977, compared with the 1976 level of 5 million tons. These results were achieved through an increase in shipments of eight percent in metallurgical coal and 55 percent in thermal coal over the previous year.

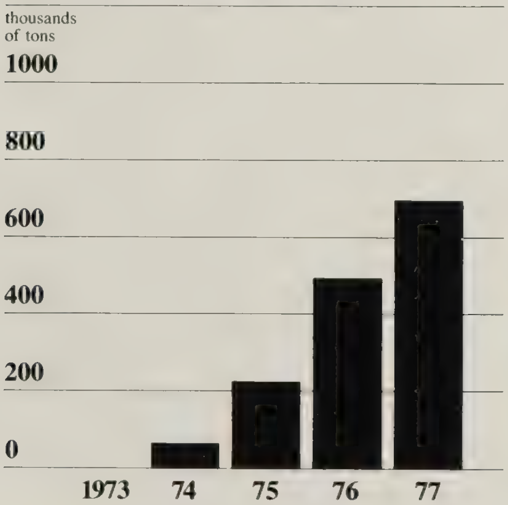
Marketing efforts during the year resulted in new long-term commitments to ship an additional 4 million tons of metallurgical coal over the next seven years to customers in Korea, Pakistan and Brazil. The Korean contract was amended to increase the volume between 1977 and 1985 to 6 million tons from 3.7 million tons. Kaiser Resources was named the primary supplier of metallurgical coal to the new Pakistan steel mill currently under construction. The five-year contract calls for shipment of 1.4 million metric tons beginning in 1980. Shipments to Brazilian steel mills began in 1977 and will total 410,000 metric tons over a three-year period.

The program to further diversify metallurgical coal markets in 1978 continues to be successful. The recent devaluation of the Canadian dollar has enhanced the company's competitive position in international markets. A trial cargo shipped in 1977 to a new customer in Europe has resulted in the company securing its first long-term European contract for metallurgical coal. Under the sales contract signed in March, 1978 with Mineral-ImportExport of Romania, the company will ship between 500,000 and 700,000 metric tons of metallurgical coal between the second quarter of 1978 and 1980. Trial cargoes also were shipped in 1977 to other customers in Europe and South America.

In 1976, the company began shipping metallurgical coal under a three-year contract with a Mexican steel company. In October, 1977, the steel company temporarily suspended shipments due to a government order causing the steel mill to use domestic coal. At the time shipments were interrupted, 487,000 metric tons of coal remained to be shipped under the contract. Kaiser Resources has been advised that shipments are expected to resume in the fourth quarter of 1978.

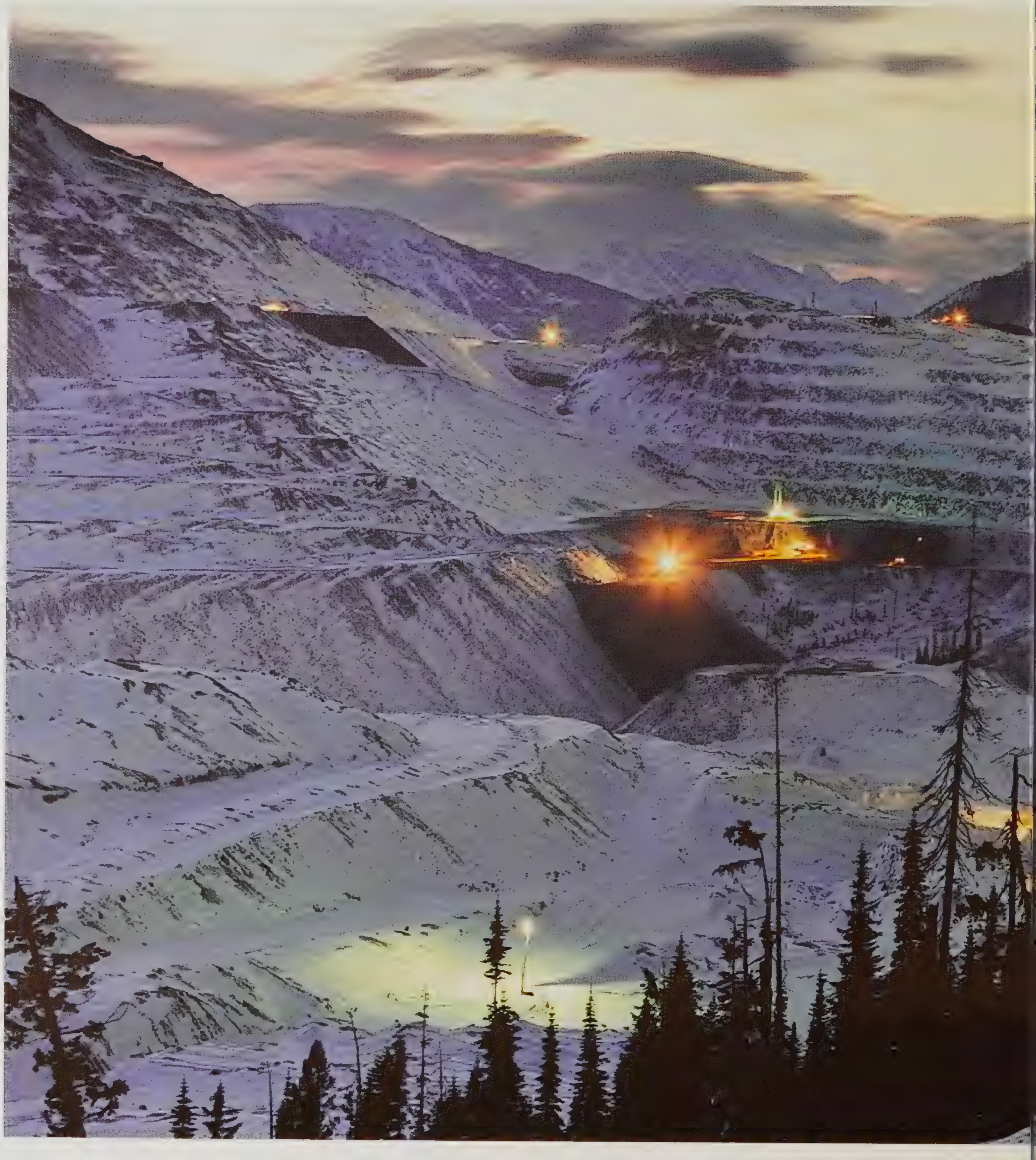
Thermal coal is becoming an increasingly important product for the company. Shipments of thermal coal in 1978 are expected to be substantially above the 1977 level as the result of signing new contracts with European customers.

Metallurgical Coal Shipments to Countries other than Japan



Brian McDermott *(right)*, director of marketing and sales; John Harvie *(extreme left)* vice-president; Bob Stanlake, manager, marketing and sales; and Dagney Vermunt, marketing services co-ordinator.

Dawn breaks over Harmer Ridge, 6,000 feet high in the Canadian Rockies of British Columbia. Kaiser Resources people work around the clock at this surface mine.



Howard Cadinha *(left)*, executive vice-president, finance and administration; Bent Larsen *(centre)* controller; and Peter Bradbury, treasurer.

Net Earnings

Net earnings in 1977 were $4.9 million, or nine percent higher than in 1976. Consolidated net earnings totalled $57.3 million or $2.14 per share, compared with $52.4 million or $1.98 per share in 1976.

Earnings per share were based on the weighted average shares outstanding during the year of 26.8 million in 1977 and 26.4 million in 1976.

The improvement in net earnings was due principally to increased deliveries of metallurgical and thermal coal to markets in Asia, Europe and South and Central America. Net earnings in the year were also favorably affected by reduced depreciation charges related to a revision of the estimated useful lives of certain major facilities.

Sales

Sales in 1977 rose to a record $299 million, compared with the previous high of $263 million in 1976. The increase resulted from higher shipments of all products and from higher prices for metallurgical coal.

Deliveries of metallurgical coal increased by 351,000 tons or eight percent while thermal coal increased by 171,000 tons or 55 percent over the preceding year. Total shipments of coal, coke and related products in 1977 were 5.5 million tons, compared with 5 million tons in 1976.

In 1977, shipments of metallurgical coal to Japan under the long-term contract with Mitsubishi Corporation, the company's major customer, accounted for approximately 78 percent of the company's sales revenue. The price for coal under this contract increased by $2.55 to $57.64 per ton during the year as a result of price adjustments for escalation relating principally to rail freight, materials, labor and pension cost increases. The increase in price includes a provision of 41 cents per ton for labor and pension cost increases retroactive to January 16, 1977, pending settlement of the labor contract for 1977 with the union representing hourly-paid production and maintenance employees. In December 1977, an interim six percent wage increase was paid to these employees, retroactive to the beginning of the year.

The contract provides for full price escalation for increases in rail freight costs. Escalation is also permitted for increases in labor, pensions and materials costs and for increases in property and corporation capital taxes, subject to a ceiling of $1.50 per ton in the year ending March 31, 1978. The contract provides for a review of the prices to be effective April 1, 1978 and April 1, 1980, subject to binding arbitration should the parties fail to agree.

The contract with Mitsubishi extends to March 31, 1985 and provides for the sale of 4.75 million tons of metallurgical coal per year, plus or minus five percent at the buyer's option. Shipments in recent years have been below the nominal contract level due to production curtailments in the Japanese steel industry. Deliveries under the contract in 1977 amounted to 4.2 million tons or 88 percent of the annual contract quantity as compared with 4 million tons or 85 percent in 1976.

Extension of Useful Lives

In 1977, the company extended the maximum useful lives of its principal facilities to 25 from 15 years. The change in useful lives was made to reflect the expected use of these facilities beyond the expiration of the sales contract with Mitsubishi Corporation in 1985. Ongoing exploration work has confirmed that coal deposits in areas adjacent to existing mining activities are sufficient, based on current operating and economic conditions, to support current production levels until the year 2000. The effect of the extension of useful lives was to reduce annual depreciation expense by $3.5 million. As a result, net earnings in 1977 were increased by $1.6 million or six cents per share.

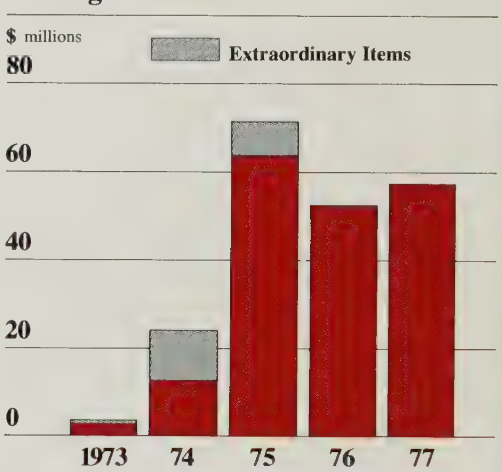
Interest Income

The investment of corporate cash balances in short-term bank deposits resulted in interest income of $8.7 million in the year, compared with $9.8 million in 1976. The decline in income was primarily attributable to lower interest rates prevailing during the year.

Taxes

Provisions for taxes to federal, provincial and municipal governments were $78.8 million in 1977, compared with $79 million in 1976. In 1977, income and mining

Earnings



taxes accounted for $68.8 million, while the remaining $10 million represented mineral land taxes, property taxes and corporation capital taxes. The comparable amounts in 1976 were $67.5 million and $11.5 million, respectively.

The effective tax rate for the company in 1977 decreased to 54.6 percent from 56.3 percent in the preceding year. The decrease was principally due to higher depletion benefits earned by the company in mining activities during the year.

Capital Expenditures

Property, plant and equipment purchases amounted to $28.5 million in 1977. Of this amount, $19.5 million was spent for the development of a new section of the hydraulic mine under a project calling for expenditures of $49 million over three years ending in late 1978. The remaining $9 million was spent for the completion of the Elkview plant modification program and for the replacement and improvement of equipment and facilities at all company locations.

Oil and Gas Exploration

In August, 1977, the company invested $5 million in the exploration program of Dome Petroleum Limited in the Beaufort Sea in return for a one percent net profits interest in four exploration blocks. The cost of the investment and the related depletion benefits were deferred in the accounts of the company pending establishment of the commercial viability of the project. The company has no obligation to make further contributions to the venture. Exploration activities in 1977 identified the existence of oil and gas in the area. Further exploration is scheduled during the 1978 drilling season.

The company entered into an agreement with Petro-Canada in December, 1977 to explore for oil and gas on 1.1 million acres in the Sable Island area off the east coast of Nova Scotia. The company can earn up to a 10 percent working interest in the project by payment of approximately $16.5 million of drilling expenditures in 1978 and 1979. The agreement, which is subject to approval under the Foreign Investment Review Act, also grants the company an option to acquire a 10 percent interest in an adjoining 20,000 acres.

A major portion of the exploration cost incurred on these projects will qualify for super depletion tax benefits which significantly reduce the after-tax costs of these expenditures to the company.

Debt Retirement

In December, 1977, the company retired all indebtedness outstanding under the credit agreements with its Canadian and U.S. banks, increasing debt repayments in the year to $11.7 million. The company's strong financial and debt-free position provides it with significant borrowing capacity and flexibility to finance future expansion activities.

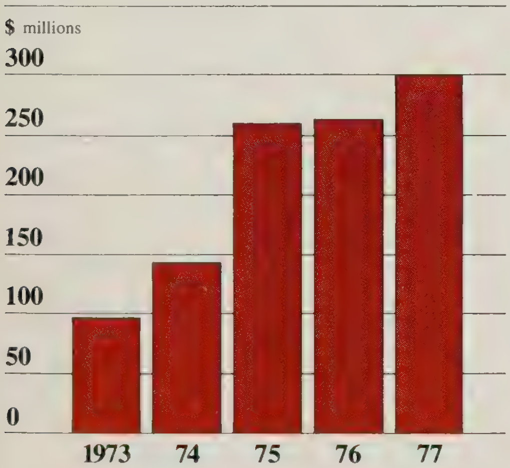
Dividends

The quarterly dividend was increased in the fourth quarter of 1977 to 22½ cents from 21½ cents per common share. This is the third increase since the initial dividend of 15 cents per share was paid in the first quarter of 1975. The company's dividend is subject to restrictions under the Anti-Inflation Act.

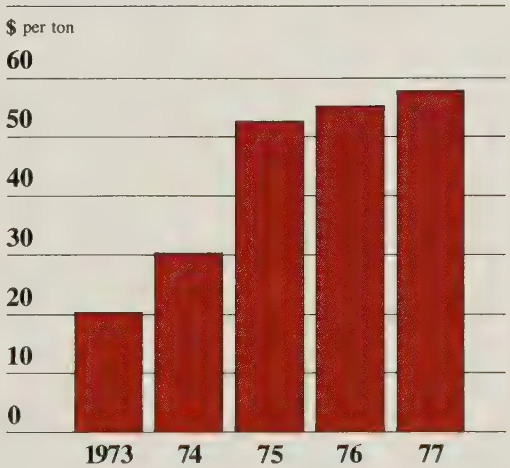
Anti-Inflation Controls

The Anti-Inflation Act establishes guidelines to restrain prices and profit margins on domestic sales, employee compensation and dividends. The company is largely unaffected by the price and profit restraints as it earns substantially all of its revenues from sales in export markets. However, the company is restricted to a maximum dividend payment of approximately 91½ cents per share in the twelve months ending October 13, 1978. The degree of restriction, if any, that may apply to dividends subsequent to that date has not been announced by the Government. The Act is scheduled to expire on December 31, 1978.

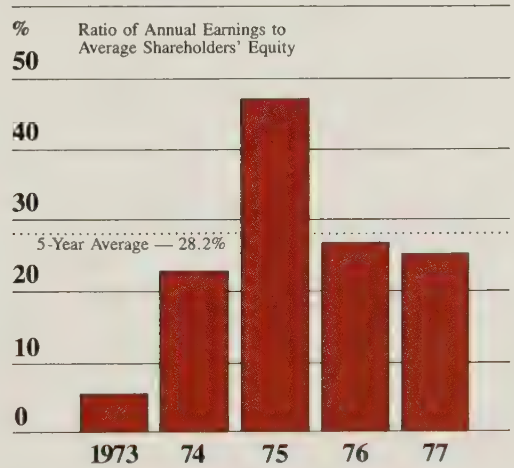
Sales



Metallurgical Coal Price



Return on Equity



Kaiser Resources Ltd.
Consolidated Statement of Earnings
For the years ended December 31, 1977 and 1976

	(Thousands) 1977	1976
Sales (Note B)	**$299,005**	$262,890
Interest and other income, net	**8,722**	11,732
	307,727	274,622
Costs and expenses:		
Cost of products sold	**140,577**	112,513
General and administrative	**18,204**	13,305
Mineral land and property taxes	**9,433**	10,940
Interest on long-term debt	**864**	1,548
Depreciation and depletion (Note H)	**10,920**	14,801
Amortization of preproduction and development costs	**1,600**	1,600
	181,598	154,707
Earnings before provision for income taxes	**126,129**	119,915
Provision for income taxes (Note I)	**68,847**	67,528
Net earnings	**$ 57,282**	$ 52,387
Net earnings per share (Note J)	**$2.14**	$1.98

Kaiser Resources Ltd.
Consolidated Statement of Changes in Financial Position
For the years ended December 31, 1977 and 1976

	(Thousands) 1977	1976
Source of funds:		
Net earnings	**$ 57,282**	$ 52,387
Depreciation, depletion and amortization	**12,520**	16,401
Deferred income taxes	**14,864**	9,134
Loss (gain) on sale of assets	**725**	(685)
Total funds provided by operations	**85,391**	77,237
Capital stock issued	**499**	2,587
Proceeds from sale of assets	**420**	1,319
Total source of funds	**86,310**	81,143
Application of funds:		
Property, plant and equipment purchases	**28,542**	13,330
Other assets acquired	**6,231**	2,890
Reduction of long-term debt	**4,785**	7,265
Dividends paid	**23,315**	21,593
Total application of funds	**62,873**	45,078
Increase in working capital (see below)	**23,437**	36,065
Working capital at beginning of year	**102,380**	66,315
Working capital at end of year	**$125,817**	$102,380
Summary of increase (decrease) in working capital:		
Cash and short-term deposits	**$ (4,839)**	$20,483
Accounts receivable	**6,714**	3,271
Inventories	**(5,885)**	10,329
Prepaid expenses	**11**	509
Accounts payable and accrued liabilities	**(1,799)**	1,877
Payroll and related amounts	**(510)**	(865)
Income taxes payable	**22,822**	454
Long-term debt due within one year	**6,923**	7
	$ 23,437	$ 36,065

Kaiser Resources Ltd.
Consolidated Balance Sheet
As at December 31, 1977 and 1976

Assets	(Thousands) 1977	1976
Current assets:		
Cash and short-term deposits	**$104,525**	$109,364
Accounts receivable	**14,913**	8,199
Inventories (Note C)	**32,893**	38,778
Prepaid expenses	**1,244**	1,233
	153,575	157,574
Property, plant and equipment — at cost:		
Land	**17,166**	17,178
Buildings and land improvements	**55,523**	54,724
Machinery and equipment	**115,133**	107,524
Construction work-in-process	**28,990**	11,144
	216,812	190,570
Accumulated depreciation and depletion	**83,753**	74,000
	133,059	116,570
Other assets	**14,523**	8,304
Deferred preproduction and development costs less amounts amortized	**11,598**	13,198
	$312,755	$295,646

Kaiser Resources Ltd.
Consolidated Statement of Shareholders' Equity
For the years ended December 31, 1977 and 1976

	Capital Stock			
	Shares Issued	Amount	Contributed Surplus	Retained Earnings
		(Thousands)		
Balance January 1, 1976	25,915,245	$ 25,915	$ 72,640	$ 79,009
Net earnings — 1976				52,387
Exercise of — warrants	776,710	777	1,437	
— options	59,900	60	313	
Dividends ($.815 per share)				(21,593)
Balance December 31, 1976	26,751,855	26,752	74,390	109,803
Net earnings — 1977				57,282
Exercise of options	57,850	58	441	
Dividends ($.87 per share)				(23,315)
Balance December 31, 1977	26,809,705	$ 26,810	$ 74,831	$143,770

Liabilities and Shareholders' Equity

	(Thousands) 1977	1976
Current liabilities:		
Accounts payable and accrued liabilities	**$ 11,721**	$ 9,922
Payroll and related amounts	**5,649**	5,139
Income taxes payable	**10,388**	33,210
Long-term debt due within one year	**—**	6,923
	27,758	55,194
Long-term debt	**—**	4,785
Deferred income taxes (Note I)	**39,586**	24,722
Shareholders' equity:		
Capital stock (Note D)		
Authorized — 28,000,000 common shares of par value $1 each		
Issued and fully paid — 26,809,705 shares (26,751,855 in 1976)	**26,810**	26,752
Contributed surplus (Note E)	**74,831**	74,390
Retained earnings from July 1, 1973 (Notes E and F)	**143,770**	109,803
	245,411	210,945
Commitments and contingencies (Note G)		
	$312,755	$295,646

Approved by the Directors: Edgar F. Kaiser, Jr., *Director* E.D.H. Wilkinson, Q.C., *Director*

Auditors' Report

The Shareholders,
Kaiser Resources Ltd.

We have examined the consolidated balance sheet of Kaiser Resources Ltd. as at December 31, 1977 and 1976 and the consolidated statements of shareholders' equity, earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the Company as at December 31, 1977 and 1976 and the results of its operations and the changes in its financial position for the years then ended, in accordance with generally accepted accounting principles applied on a consistent basis.

Touche Ross & Co.

Touche Ross & Co.
Chartered Accountants

Vancouver, British Columbia
January 24, 1978

Note A — Summary of Significant Accounting Policies

Accounting Principles:

The Company is incorporated under the Companies Act of the Province of British Columbia and prepares its accounts in accordance with generally accepted accounting principles followed in Canada.

Principles of Consolidation:

The consolidated financial statements include the accounts of Kaiser Resources Ltd. and its wholly-owned subsidiary Westshore Terminals Ltd. Inter-company transactions and accounts have been eliminated.

The investment in Kaiser Coal Canada Ltd., a 70% owned joint-venture company formed to perform the feasibility work on a potential new mine on the Company's property, is accounted for on the cost basis.

Translation of Foreign Currency:

Current assets and current liabilities in foreign currencies are translated at rates of exchange in effect at the respective balance sheet dates. Non-current assets are translated at rates of exchange in effect on the date of acquisition. Provisions for loss from exchange rate fluctuations and gains and losses realized on transactions completed during the year are included in earnings.

Inventories:

Inventories of coal and coke are valued at the lower of average cost and net realizable value. Depreciation, depletion and amortization of preproduction and development costs are not included in the determination of inventory costs. Inventories of operating supplies are valued at average cost.

Property, Plant and Equipment:

Depreciation is provided on a straight-line basis over the estimated useful life of each asset. In 1977, the maximum useful life for certain assets was extended to 25 from 15 years as described in Note H.

Expenditures for repairs and maintenance are charged against earnings. Replacements and major improvements are capitalized. Costs of assets sold, retired or abandoned and the related amounts of accumulated depreciation are eliminated from the accounts. Gains or losses on such dispositions are included in earnings.

Depletion of coal-bearing land is provided at the rate of $.10 per short ton of raw coal mined.

Deferred Preproduction and Development Costs:

Preproduction and development costs are amortized on a straight-line basis over the term of the 15 year sales contract with Mitsubishi Corporation.

Exploration Costs:

Exploration costs are charged against earnings when incurred. Exploration costs incurred in connection with feasibility studies to determine the commercial viability of specific mining projects are deferred and charged against earnings over the life of the project or written off when projects are abandoned or proven unfeasible.

Income Taxes:

Income taxes are accounted for by the tax allocation method. Under this method, provision for taxes is made in the year transactions affect net income as opposed to when such items are recognized for tax purposes. Differences between the provision for taxes and taxes currently payable are reflected as deferred income taxes. Earned depletion benefits are reflected as a tax rate reduction in the year claimed.

Pension Plans:

Annual contributions to employee pension plans are charged against earnings. Pension contributions are actuarially determined to include amounts necessary to provide for current service and for the funding of past service liabilities over 15 years.

Note B — Sales

	(Thousands)			
	1977		1976	
Export				
Japan	**$237,091**	**79%**	$220,296	84%
Korea, Europe, South America, Central America and the United States	**53,826**	**18**	35,402	13
	290,917	**97**	255,698	97
Domestic	**8,088**	**3**	7,192	3
	$299,005	**100%**	$262,890	100%

Exports to Japan represent metallurgical and thermal coal sales under contracts with Mitsubishi Corporation. Substantially all of the sales to Mitsubishi result from shipments of metallurgical coal used in the production of steel. The metallurgical coal contract extends to March 31, 1985. The contract provides for price escalation for cost increases and for price renegotiations effective April 1, 1978 and April 1, 1980, subject to binding arbitration if the parties are unable to agree.

Note C — Inventories

	(Thousands) 1977	1976
Clean coal and coke	**$15,268**	$22,654
Raw coal	**1,912**	882
Operating supplies (less allowance for shrinkage and obsolescence of $778,000 in 1977 and $729,000 in 1976)	**15,713**	15,242
	$32,893	$38,778

Note D — Capital Stock

The Company has a stock option program for officers and salaried employees. Options to purchase shares are exercisable for four years commencing one year after date of grant at prices based on the average of the high and low market prices of shares traded on The Toronto Stock Exchange on the date of grant. At December 31, 1977, there were options outstanding to purchase 217,050 shares at prices ranging from $4.45 to $16.00 per share through May 19, 1982. At December 31, 1976, there were options outstanding to purchase 170,400 shares.

Note E — Application of Accumulated Deficit to Contributed Surplus

In 1973, the Company applied the accumulated deficit as of June 30, 1973 of $32,322,752 against contributed surplus in accordance with the equity purchase agreements executed with Mitsubishi Corporation and nine other Japanese companies.

Note F — Restriction on Dividends

The Company is subject to restrictions on its dividend payments under the Anti-Inflation Act. In the twelve months ended October 13, 1977, the Company was restricted to an increase of 8% of the $.80 dividend paid in the preceding twelve-month period. For the twelve months ending October 13, 1978, the Company is restricted to an increase of 6% of the dividend allowed to be paid in the immediately preceding twelve-month period. The degree of restriction that will apply to dividend payments after October 13, 1978 has not been announced by the Government. The Anti-Inflation Act expires on December 31, 1978.

Note G — Commitments and Contingencies

In 1974, the Company entered into an exploration agreement with Mitsui Mining Company, Limited and Mitsubishi Corporation to conduct a feasibility study of a new mining project on the Company's property capable of producing up to approximately 2,000,000 long tons of clean metallurgical coal per year. As of December 31, 1977, the Company had invested $2,660,000 in Kaiser Coal Canada Ltd., the company incorporated for the purpose of conducting the feasibility study. If the parties decide to proceed with the project, the Company will be obligated to contribute 50% of the equity capital required to develop the project in exchange for an ownership interest of 70%. The commercial development of the project has been delayed due to soft coal market conditions in Japan, the principal potential market for coal produced by the project. The parties are continuing to pursue marketing opportunities in other countries.

On December 21, 1977, the Company entered into an agreement with Petro-Canada Exploration, Inc. to acquire up to a 10% working interest in oil and gas rights with respect to approximately 1,100,000 acres off the east coast of Nova Scotia. Under terms of the agreement, the Company is committed to estimated drilling expenditures for oil and gas exploration of $16,500,000 over the next two years. The agreement also grants the Company an option to acquire a 10% working interest in an additional 20,000 acres in the same area upon payment of 15% of the drilling costs of the first well drilled in that area. The agreement is subject to approval under the Foreign Investment Review Act.

The Company is obligated to make production payments to Crows Nest Industries Limited in the amount of $.50 per short ton of coal mined and sold after January 1, 1977 until an aggregate of $34,000,000 is paid. Production payments for 1977 amounted to $2,293,000.

On January 12, 1978, the Company and three other coal companies reached agreement with the United Mine Workers of America, District 18, to provide contributions over the next ten years to fully fund benefits for retired coal miners not covered by pension plans of any of the companies. The Company's share of future contributions is estimated at $1,000,000 per year.

Under the hydraulic mining license agreement between the Company and Mitsui Mining Company, Limited which extends until 1992, the Company is committed to pay a royalty of U.S. $.30 per long ton of clean coal produced by the hydraulic mining method. The Company will receive a paid-up license when a total of U.S. $9,000,000 has been paid to Mitsui by the Company and its affiliates. Royalty payments for 1977 amounted to U.S. $93,000 and increased the total amounts paid under the agreement to U.S. $702,000.

Note H — Extension of Useful Lives of Assets

Prior to 1977, depreciation was provided on a straight-line basis over the lesser of the estimated useful life of each asset and the remaining life of the sales contract with Mitsubishi Corporation expiring on March 31, 1985. In 1977, the Company, with the assistance of independent consultants, completed a study of the remaining useful lives of its assets. Based on the results of this study and current operating and economic conditions, management concluded that the estimated remaining useful lives of its principal facilities should be extended. Accordingly, life expectancies of certain mining and port facilities were revised effective January 1, 1977. The effect of this change in 1977 was to reduce depreciation expense by $3,500,000 and to increase net earnings by $1,600,000 or $.06 per share.

Note I — Provision for Income Taxes

	(Thousands) 1977	1976
Current:		
Federal and provincial income taxes	**$40,964**	$45,470
British Columbia mining tax	**13,019**	12,924
	53,983	58,394
Deferred:		
Federal and provincial income taxes	**13,396**	7,981
British Columbia mining tax	**1,468**	1,153
	14,864	9,134
	$68,847	$67,528

The effective tax rates for the Company were 54.6% in 1977 and 56.3% in 1976.

Deferred income taxes result from timing differences in the recognition of revenue and expenses for income tax and financial reporting purposes and are summarized as follows:

	(Thousands) 1977	1976
Depreciation claimed for taxes in excess of amounts recorded	**$ 9,985**	$ 9,268
Oil and gas exploration costs claimed for taxes	**2,550**	—
Oil and gas depletion benefits claimed for taxes	**2,382**	—
Other items	**(53)**	(134)
	$14,864	$ 9,134

Tax benefits arising from oil and gas depletion claimed in 1977 have not been reflected in earnings as a tax rate reduction pending the establishment of the commercial viability of the venture.

Note J — Earnings Per Share

Earnings per share are calculated on the weighted average number of shares outstanding during the year of 26,792,441 in 1977 and 26,394,056 in 1976.

Note K — Remuneration of Directors and Senior Officers

The aggregate direct remuneration paid to directors and senior officers amounted to $1,789,000 for 1977 and $1,089,000 for 1976.

Note L — Pension Plans

The Company has pension plans in effect for its hourly and salaried employees. Contributions to employee pension plans amounted to $982,000 in 1977 and $913,000 in 1976. At December 31, 1977, the unfunded past service liabilities of all pension plans amounted to $3,158,000.

Note M — Anti-Inflation Legislation

The Company is subject to the Anti-Inflation Act which imposes restraints on dividends, employee compensation and domestic prices and profit margins until December 31, 1978.

Note N — Replacement Costs

Estimates of replacement costs for inventories, cost of sales, plant and equipment and related depreciation will be provided in the Company's annual report on Form 10-K to be filed with the Securities and Exchange Commission, Washington, D.C., on or before March 31, 1978. A copy of the report may be obtained from the Company upon request.

The effect of inflation has been to increase the cost of operations. The Company has generally been able to recover such increases through price escalation provisions of its sales contracts. However, the extent of recovery is affected by competitive market factors and the volume of coal shipped in the year.

Note O — Quarterly Financial Data (Unaudited)

(Thousands Except for Share Statistics)

	1977 Quarters Ended				1976 Quarters Ended			
	Mar. 31	**Jun. 30**	**Sep. 30**	**Dec. 31**	Mar. 31	Jun. 30	Sept. 30	Dec. 31
Shipments — long tons	**1,351**	**1,511**	**1,273**	**1,343**	1,288	1,442	891	1,333
Sales	**$73,106**	**$81,799**	**$71,357**	**$72,743**	$69,494	$74,788	$46,697	$71,911
Gross profit	**39,686**	**43,689**	**38,986**	**36,067**	41,337	43,269	25,495	40,276
Net earnings (1)	**14,513**	**16,172**	**13,591**	**13,006**	14,594	15,861	7,622	14,310
Earnings per share (1)	**$ .54**	**$ .60**	**$ .51**	**$ .49**	$ .56	$ .60	$ .29	$ .54
Dividends per share	**.215**	**.215**	**.215**	**.225**	.20	.20	.20	.215
Common stock price (Toronto Stock Exchange)								
High	**$ 15.63**	**$ 15.63**	**$ 15.13**	**$ 14.50**	$ 12.50	$ 14.75	$ 16.38	$ 15.25
Low	**13.75**	**13.63**	**12.75**	**12.75**	9.38	10.00	13.63	12.50

(1) As explained in Note H, the estimated useful lives of certain assets were extended in the fourth quarter of 1977. The resultant depreciation adjustment increased net earnings for the year by $1,600,000 or $.06 per share. To ensure comparability of quarterly results, previously reported quarterly earnings for 1977 have been restated. Net earnings were increased by $400,000 in each of the first, second and third quarters and earnings per share for the same periods were increased by $.01, $.01 and $.02, respectively.

(Thousands except per share data)	1977	1976	1975	1974	1973
Shipments — Tons					
Metallurgical coal	**4,881**	4,530	4,971	4,969	4,675
Thermal coal	**485**	314	489	329	70
Coke and breeze	**112**	110	133	161	169
Total	**5,478**	4,954	5,593	5,459	4,914
Summary of Earnings					
Sales	**$299,005**	$262,890	$259,870	$142,597	$ 97,439
Interest and other income, net	**8,722**	11,732	5,564	3,997	2,385
Total	**307,727**	274,622	265,434	146,594	99,824
Cost of products sold	**140,577**	112,513	111,053	87,327	66,147
General and administrative	**18,204**	13,305	11,624	8,701	6,464
Mineral land and property taxes	**9,433**	10,940	6,708	3,599	1,663
Interest	**864**	1,548	2,535	5,875	8,202
Depreciation and depletion	**10,920**	14,801	13,661	12,850	12,322
Amortization of preproduction and development costs	**1,600**	1,600	1,600	1,594	1,507
Earnings before provision for income taxes and extraordinary items	**126,129**	119,915	118,253	26,648	3,519
Provision for income taxes	**68,847**	67,528	54,253	13,986	735
Extraordinary items	**—**	—	7,229[1]	11,496[1]	694[1]
Net earnings	**$ 57,282**	$ 52,387	$ 71,229	$ 24,158	$ 3,478
Weighted average number of shares outstanding	**26,792**	26,394	25,158	23,954	15,917
Share Statistics					
Basic earnings					
Before extraordinary items	**$ 2.14**	$ 1.98	$ 2.54	$ .53	$ .18
Extraordinary items	**—**	—	.29	.48	.04
Net earnings	**2.14**	1.98	2.83	1.01	.22
Dividends	**.87**	.815	.75	—	—
Book value at year end	**9.15**	7.89	6.85	4.99	3.99
TSE common stock price — high	**15.63**	16.38	12.75	5.38	5.75
— low	**12.75**	9.38	4.90	3.00	2.00
Other Financial Data					
Cash flow from operations	**$ 85,391**	$ 77,237	$ 99,339	$ 40,603	$ 17,338
Working capital	**125,817**	102,380	66,315	11,517	4,376
Capital expenditures	**28,542**	13,330	21,416	10,186	9,620
Total assets	**312,755**	295,646	261,869	163,511	160,985
Total long-term debt	**—**	11,708	18,980	28,738	57,442
Shareholders' equity	**245,411**	210,945	177,564	119,625	95,434
Shareholders at year end	**6,398**	6,455	5,390	3,957	3,810
Employees at year end	**1,930**	2,030	2,008	1,960	1,725

Note: (1) Reduction of income taxes otherwise payable due to the application of loss carry-forwards.

Management's Discussion and Analysis of the Summary of Earnings

1977 Compared With 1976

Sales increased by $36.1 million in 1977 to $299 million as a result of higher shipments and higher prices for metallurgical coal. Deliveries of metallurgical and thermal coal during the year increased by 8% and 55%, respectively, as a result of intensified efforts to secure new markets for coal outside of Japan. In 1977, approximately 78% of the company's sales revenue was derived from metallurgical coal delivered to Japan under a long-term contract with Mitsubishi Corporation. The price for coal under this contract increased by $2.55 to $57.64 per ton during the year as a result of price adjustments for escalation. The increase in price includes estimated unbilled adjustments of $.41 per ton retroactive to January 16, 1977 pending settlement of labor negotiations with hourly workers represented by the United Mine Workers of America, Local 7292.

Interest and other income declined by $3 million during the year principally as a result of losses incurred on the disposal of equipment no longer required and lower interest earnings from the investment of cash balances due to declining interest rates.

Costs and expenses increased in 1977 primarily as a result of the effect of inflation, higher shipment levels and increased activities in the administrative areas to diversify markets and to evaluate new opportunities for future growth. *Cost of products sold* rose 25% during the year reflecting the general impact of inflation on labor and materials costs, higher shipment levels and higher rail freight costs incurred to move coal to the company's port facilities for sale in export markets.

The increase in *general and administrative* expenses related principally to higher salary costs, increased exploration activity on the company's property and higher travel and related costs attributable to the increased activities of the company. The decline in *mineral land and property taxes* resulted mainly from a decrease in mineral land taxes relating to the low level of shipments in 1976. Taxes assessed each year are based on tonnage shipped in the preceding year. The decrease in *interest* resulted from the retirement of long-term debt during the year.

Reduced charges for *depreciation and depletion* are accounted for principally by the extension of the estimated useful lives of certain major facilities to 25 years from 15 years. Prior to 1977, depreciation for these facilities was provided on a straight-line basis over the lesser of the estimated useful life of each asset and the remaining life of the 15-year sales contract with Mitsubishi Corporation expiring March 31, 1985. The effect of this revision was to reduce depreciation charges for 1977 by $3.5 million.

1976 Compared With 1975

Sales in 1976 increased slightly over the preceding year as the price for metallurgical coal shipped to Japan increased by $2.69 to $55.09 per ton. Revenue from increased prices was offset by a decline of 9% in metallurgical coal shipments, resulting primarily from soft market conditions experienced during the year.

Earnings in 1976 increased cash balances to $109.4 million at year-end. Interest earnings from the placement of these funds in short-term investments accounted for the increase in *interest and other income*.

Costs and expenses increased in 1976 mainly because of higher mineral land taxes and increased general and administrative expense. *Cost of products sold* rose only slightly because the increases in product costs were almost entirely offset by lower shipments. Efforts to further diversify markets and to expand business activities resulted in increased staffing requirements and related costs which, together with higher insurance costs, were the main causes of the increase in *general and administrative* expense. *Mineral land and property taxes* increased due to a rise in the mineral land taxes paid to the Provincial Government to $1.50 from $1.00 per ton and higher property tax rates. *Interest expense* continued to decrease as in previous years, reflecting the retirement of long-term debt.

Income taxes rose by $13.3 million in 1976 as a result of higher federal and provincial income tax rates, and the decrease in earned depletion benefits which are treated as a tax rate reduction in the year claimed. This caused the effective tax rate of the company to rise to 56.3% in 1976 from 45.9% in 1975.

The absence of *extraordinary income* in 1976 reflects the exhaustion of accumulated loss carry-forwards in the preceding year.

Prior Years

The increase in net earnings for 1975 over the preceding year was due principally to a significant increase in the price for metallurgical coal. The price of coal exported to Japan during the year increased by $22.16 per ton to $52.40 at December 31, 1975.

The increase in net earnings for 1974 primarily related to improving prices for metallurgical coal and extraordinary income which resulted from the application of prior years loss carry-forwards to reduce income taxes otherwise payable. The price of metallurgical coal shipped to Japan increased by $9.99 per ton in the year.

Net earnings in 1973 represented the first year of profitable operations for the company. During that year the company overcame the problems incurred in connection with the startup of mining operations, renegotiated its sales contracts with Mitsubishi in terms of price and other conditions and retired $55 million of debt through an equity refinancing program.

Corporate Directory

Directors

Edgar F. Kaiser*
Chairman, Kaiser Resources Ltd., Vancouver
Chairman, Kaiser Steel Corporation,
Oakland, California
(major western U.S. steel producer)

Graham R. Dawson*
Vice-Chairman, Kaiser Resources Ltd.
President, Dawson Construction Limited,
Vancouver
(heavy construction contractors)

Edgar F. Kaiser, Jr.*
Chairman of the Executive Committee
President and Chief Executive Officer,
Kaiser Resources Ltd., Vancouver

Howard E. Cadinha
Executive Vice-President,
Finance and Administration
Kaiser Resources Ltd., Vancouver

Paul G. Desmarais
Chairman and Chief Executive Officer
Power Corporation of Canada Limited, Montreal
(investment and management company)

Roger T. Hager*†
Retired Chairman
The Canadian Fishing Company Limited,
Vancouver (fish processing)

Enji Haseo
Managing Director, Ferrous Metals
Mitsubishi Corporation,
Tokyo (trading company)

Robert W. MacPhail
Executive Vice-President, Operations
Kaiser Resources Ltd., Vancouver

John W. Poole*
President and Chief Executive Officer
Daon Development Corporation, Vancouver
(real estate development)

Edward A. Tory†
Partner, Campbell, Godfrey & Lewtas
Toronto (barristers and solicitors)

E.D.H. Wilkinson, Q.C.†
Partner, Russell & DuMoulin
Vancouver (barristers and solicitors)

*Member of Executive Committee
†Member of Audit Committee

Officers

Edgar F. Kaiser
Chairman of the Board

Graham R. Dawson
Vice-Chairman of the Board

Edgar F. Kaiser, Jr.
Chairman of the Executive Committee
President and Chief Executive Officer

Howard E. Cadinha
Executive Vice-President,
Finance and Administration

Robert W. MacPhail
Executive Vice-President,
Operations

George L. Farinsky
Senior Vice-President,
Corporate Development

Robert H. Gronotte
Vice-President,
Engineering

Sue Haraguchi
Vice-President,
Assistant to the President

John H. Harvie
Vice-President

Christopher H. Hebb
Vice-President,
General Counsel and Secretary

Robert G. Heers
Vice-President,
New Project Development

Hans J. Krutzen
Vice-President,
Terminal Operations and Traffic

Ward P. Popenoe
Vice-President,
Administration

Walter J. Riva
Vice-President,
Mining Operations

Peter M. Bradbury
Treasurer

Bent H. Larsen
Controller and Assistant Secretary

Thomas A. Beckett
Counsel and Assistant Secretary

Kaiser Resources Ltd.

Executive Offices
2600 Board of Trade Tower
1177 West Hastings Street
Vancouver, B.C. V6E 2L1
Telephone (604) 681-9211

Mining Operations
Box 2000
Sparwood, B.C. V0B 2G0

Westshore Terminals Ltd.
Roberts Bank
Delta, B.C. V4K 3N2

Kaiser Resources (U.S.) Ltd.
800-3rd Avenue
New York, N.Y. 10022
(212) 832-0850

300 Lakeside Drive
Oakland, Ca. 94666
(415) 271-5088

P.O. Box 727
Price, Utah 84501
(801) 637-5145

Auditors
Touche Ross & Co.

Transfer Agent
Canada Permanent Trust Company
Vancouver, Calgary, Regina,
Winnipeg, Toronto, Montreal

Registrar
National Trust Company Limited
Vancouver, Calgary, Regina,
Winnipeg, Toronto, Montreal

Shares Listed
Vancouver, Toronto and
Montreal Stock Exchanges

Annual Meeting
The annual meeting of shareholders will be held on May 9, 1978 at the Bayshore Inn, 1601 West Georgia Street, Vancouver, B.C. at 11:00 a.m. local time.

Form 10-K
A copy of the Annual Report on Form 10-K, filed with the United States Securities and Exchange Commission, is available without charge upon request to the Corporate Affairs Department at the Company's executive offices in Vancouver, British Columbia.

LITHO'D IN CANADA
AGENCY PRESS LIMITED

KAISER
RESOURCES

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KAISER RESOURCES LTD.
CONSOLIDATED STATEMENT OF EARNINGS

(Unaudited)

(Thousands)

	Three Months Ended June 30		Six Months Ended June 30	
	1977	**1976**	**1977**	**1976**
Sales	$ 81,799	$ 74,788	$154,905	$144,282
Other income, net	2,449	2,893	5,051	5,566
	84,248	77,681	159,956	149,848
Costs and expenses:				
Cost of products sold	38,110	31,519	71,530	59,676
General and administrative	4,551	2,786	8,488	6,019
Mineral land and property taxes	2,369	2,794	4,741	5,470
Interest on long-term debt	215	407	457	847
Depreciation and depletion	3,667	3,675	7,216	7,474
Amortization of preproduction and development costs	400	400	800	800
	49,312	41,581	93,232	80,286
Earnings before provision for income taxes	34,936	36,100	66,724	69,562
Provision for income taxes:				
Current	16,604	16,849	31,963	31,618
Deferred	2,560	3,390	4,876	7,489
	19,164	20,239	36,839	39,107
Net earnings	$ 15,772	$ 15,861	$ 29,885	$ 30,455
Weighted average number of shares outstanding	26,789	26,378	26,782	26,221
Net earnings per share	$ .59	$ .60	$ 1.12	$ 1.16

KAISER RESOURCES LTD.
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(Unaudited)

(Thousands)

	Six Months Ended June 30	
	1977	**1976**
Source of Funds:		
Net earnings	$ 29,885	$ 30,455
Depreciation, depletion and amortization	8,016	8,273
Provision for income taxes	4,876	7,489
Loss (gain) on sale of assets	231	(391)
Total funds provided by operations	43,008	45,826
Capital stock issued	430	1,656
Proceeds from sale of assets	205	536
	43,643	48,018
Application of Funds:		
Property, plant and equipment purchases	14,868	3,650
Other assets acquired	618	1,533
Reduction of long-term debt	3,497	3,651
Dividends paid	11,521	10,552
	30,504	19,386
Increase in working capital	13,139	28,632
Working capital at beginning of period	102,380	66,315
Working capital at end of period	$115,519	$ 94,947

On behalf of the Board:
Edgar F. Kaiser, Jr., Director
E. D. H. Wilkinson, Q.C., Director

WESTERN MINER PRESS LTD.

KAISER RESOURCES

Report to Shareholders First Half of 1977

TO OUR SHAREHOLDERS:

Kaiser Resources had consolidated net earnings of $15,772,000 or 59 cents per share in the second quarter of 1977 on sales of $81,799,000.

In the same quarter of 1976, the Company had consolidated net earnings of $15,861,000 or 60 cents per share on sales of $74,788,000.

For the first six months of 1977, the Company had consolidated net earnings of $29,885,000 or $1.12 per share on sales of $154,905,000, compared with earnings of $30,455,000 or $1.16 per share on sales of $144,282,000 in the first half of 1976.

Export and domestic shipments of metallurgical coal during the second quarter of 1977 totalled 1,353,000 long tons, compared with 1,338,000 long tons in the second quarter of 1976. The Company's inventories of metallurgical coal at the Roberts Bank port totalled 752,000 long tons at the end of the latest quarter.

As announced at the annual general meeting on May 17, 1977, we have concluded a new long-term metallurgical coal sales contract with a steel mill in Pakistan. Pakistan Steel Mills Corporation Ltd. of Karachi will purchase between 1.3 million and 2 million metric tons of coal over a five-year period beginning in early 1979, and will advise the Company by September 30 of this year of the exact tonnage to be purchased under the contract.

During the quarter, metallurgical coal shipments were favorably affected by deliveries to steel mills in the Republic of Korea, Mexico, Argentina and Brazil. The shipment to the Argentine steel mill was a trial cargo of 20,000 metric tons of metallurgical coal to Somisa, which has an option to purchase an additional 20,000-ton trial cargo by December 31, 1977.

In a further move to diversify its markets, the Company is involved in detailed negotiations to supply up to 200,000 metric tons of metallurgical coal per year to steel mills in Brazil. Trial cargoes of coal were shipped to Brazil during 1976 for testing by the mills and an additional trial cargo of 40,000 metric tons was shipped in the second quarter of 1977.

The Company and the Office and Technical Employees' Union, representing administrative and technical employees at the Sparwood, B.C. mining and processing operations, have reached a one-year collective agreement, ending December 31, 1977. The collective agreement with the United Mine Workers of America, representing hourly-paid production and maintenance employees at the mine, expired December 31, 1976. Negotiations are continuing for a new collective agreement.

The Company's regular quarterly dividend of 21½ cents per common share was paid on June 30, 1977 to shareholders of record at the close of business on June 15, 1977.

July 26, 1977

Edgar F. Kaiser
Chairman

Edgar F. Kaiser, Jr.
President and Chief
Executive Officer

KAISER RESOURCES

Executive Offices:
2600 Board of Trade Tower
1177 West Hastings Street
Vancouver, B.C. V6E 2L1